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Golden hellos

At a time when so many companies are seeking to retreat from their social commitments to employees it was heartening to see how General Electric had sought to look after Jack Welch, the most celebrated of its old boys.

Few could argue that the corporate jet, the chauffeured limo, New York apartment, the Augusta National golf club membership, the cable TV subscription and the ringside seats at various top sporting events had not been thoroughly deserved by the value-adding achievements of America's favourite corporate son.

Most probably there would have been no argument at all had the perks not appeared in the divorce court filings of his estranged wife. But they did appear and they did cause a fuss, not to mention an unwelcome investigation by the Securities and Exchange Commission. Mr Welch appeared on the chat-show circuit in order to defend the deal before announcing that he would pay for most of the perks, worth more than Dollars 2m (Pounds 1.20m) a year, out of his own capacious pocket.

That should not be difficult for someone who retired on a Dollars 9m-a-year pension along with various types of stock option, worth last year about Dollars 775m and existing stock holdings that must have been worth as much before the market declined. Suffice to say that Mr Welch has enough to get by. But that is not the point according to one of his soul mates, Barry Diller, the chairman and chief executive of Vivendi Universal Entertainment. In the Financial Times this week, Mr Diller described shareholder resentment as "really rotten". How could they forget the outstanding work of Mr Welch so quickly?

Mr Diller should look around. The public and shareholder mood has changed. Shareholding institutions want some restraint in the escalating remuneration culture that has dominated the most senior ranks of US capitalism during the past 20 years.

Whether the recommendations published last week by the panel of worthies put together by the Conference Board, a research organisation, will be enough to deliver this goal remains to be seen. The panel's suggestions, including performance-related options, more long-term share incentives, and pay consultants reporting to remuneration committees, seemed reasonable enough. But will they work?

Another report, *Golden Hellos**, attracted far less press coverage when it was published the same day. This is a pity because its findings suggest that it may take something stronger to slow the pay and remuneration bandwagon. This report, written and compiled by Paul Hodgson, senior research associate, CEO compensation, focuses on the growing tendency among large US companies to pay their incoming chief executives joining fees equivalent to what they might have earned in bonuses and options payments had they stayed with their previous employer. This is the English meaning of compensation, as an act of restitution for those who have suffered a loss.

The most prominent of these awards in the past financial year was the Dollars 45m paid to Gary Wendt by Consec after he had left General Electric. Mr Hodgson has documented this and 35 other similar awards paid to incoming chief executives in the S &P 500 in 2001-2002. They come in various guises, including discounted share options and retention loans that need not be paid back if the executive stays. Some

companies even pay the tax on such loan income so the executive can keep the full amount.

This policy appears senseless since it subverts the very incentives that companies are laying in place at the behest of shareholders to ensure that executives do not concentrate on short-term results. It smacks of gamekeeper-turned-poacher.

As Mr Hodgson puts it: "If executives are compensated in full for all of these elements of pay regardless of whether the performance targets or service requirements have been met, then the incentive and retention purposes of these payments are completely undermined. Surely this is neither in the interests of the companies themselves nor of the stockholders."

His message is important. It should be digested not only in US boardrooms, but in those UK companies, such as Lloyds TSB and Marks and Spencer, that have already taken their own tentative steps on the inflationary path of the golden hello. Lloyds defended its Pounds 1.3m golden hello paid to Eric Daniels when recruited as director of retail banking, as "what you have to do to get the right people". Well, yes you have to do that when you and every one of your competitors install ever more elaborate retention incentives for incumbents. But where does this incentive proliferation stop?

It means that today, as Bill McDonough, president of the New York Federal Reserve, pointed out, the average US chief executive earns more than 400 times the average employee's income, compared with a multiple of 42 about 20 years ago.

The US administration should be concerned that its earnings elite has become detached from the day-to-day concerns of the average citizen. American society is fortunate that its vast working class (that includes everyone from the receptionist to the boss) consists, for the most part, of the "haves" and the "have more thans". Had this been pre-revolutionary France, the corporate elite might soon be in search of its own Scarlet Pimpernel.

The work of the Conference Board panel is to be welcomed because it is at last injecting some formulas for restraint and moderation. But it isn't going to bring down those ratios as long as recruiting companies counter their retention incentives with recruitment incentives in ever-growing stacks of dollars.

The corporate sector seems to want the best of both worlds. It wants to hold on to its best people, but at the same time it looks covetously at the winning generals who marshal the opposition.

The people who constantly profit from this "cookie jar" mentality are the company-hopping executives, the lawyers who work out the compensation demands and the headhunters who wield the levers and spin what Mr Hodgson calls the "revolving door of CEO recruitment".

Perhaps we should take our lead from a better informed public and more organised shareholder opinion. If the SEC were to take advantage of its informal investigation of Mr Welch's retirement package to demand greater levels of disclosure in future, it might do everyone a favour, including the companies that carry on layering the cake.
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